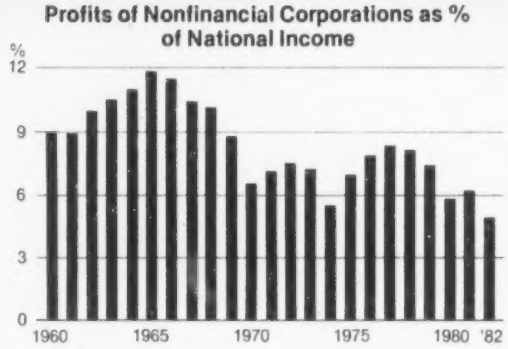
THE CONFERENCE BOARD

Profit Trends

Economic Road Maps
No. 1950 May, 1983

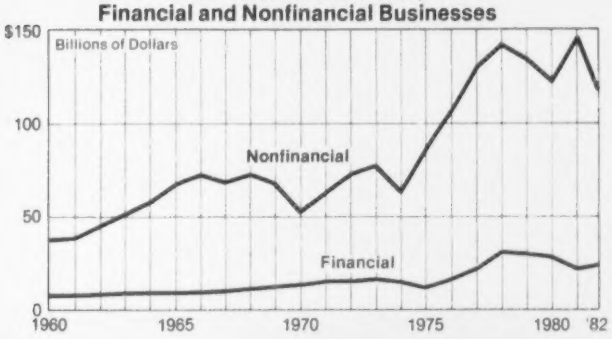
The slow pace of the economy and the continued sharp decline in the rate of inflation were the major factors affecting corporate profits during 1982. As a result, pretax profits earned in the United States were $156.8 billion, down $52.5 billion from 1981. This figure refers to "book profits," that is, profits as reported to shareholders. As a percentage of national income, profits of the nonfinancial sector have been declining for many years, from an average of about 11½% in the mid-1960's to 4.9% in 1982. The health of corporate profits mirrors the health of the nation's economy, which has gone through three recessions in less than eight years. It is hardly surprising, therefore, that corporate profits have been depressed. Having hit a cyclical peak of $222 billion in 1979, pretax book profits earned in the United States have since dropped by $65 billion, or 30 percent.



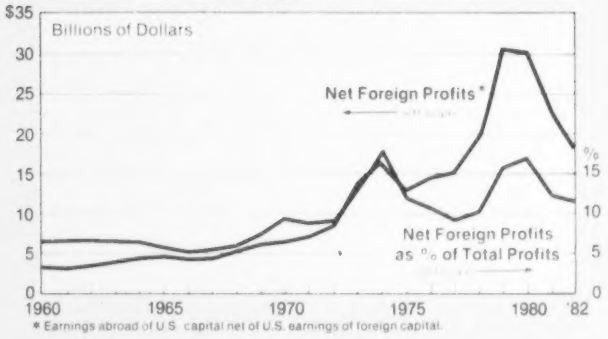
The good news is that about two-thirds of the decline reflected shrinkage in the "illusory" profits that result from underdepreciation of fixed capital and undercosting of inventory. The drop in illusory profits, from $58 billion in 1979 and $61 billion in 1980 to only $14 billion last year, is directly related to the decline in the inflation rate. The share of illusory profits in total pretax book profits declined from 20% in 1981 to 9% in 1982. The Economic Recovery Tax Act of 1981, which permits enlarged depreciation allowances under the accelerated capital recovery system, has reduced the degree of underdepreciation and has thus also been a factor in the decline of illusory profits. The elimination of illusory profits from reported book profits results in $142.8 billion of pretax economic profits for 1982, down 15% from 1981. Total reported profits, by contrast, fell 25 percent.

The decline in corporate earnings was centered in the nonfinancial sector where pretax economic profits declined 18½% in 1982. Profits of financial institutions other than the Federal Reserve rose 9% to $8.4 billion. Federal Reserve banks, which are treated as part of corporate business in the national

Pretax Economic Profits, Financial and Nonfinancial Businesses

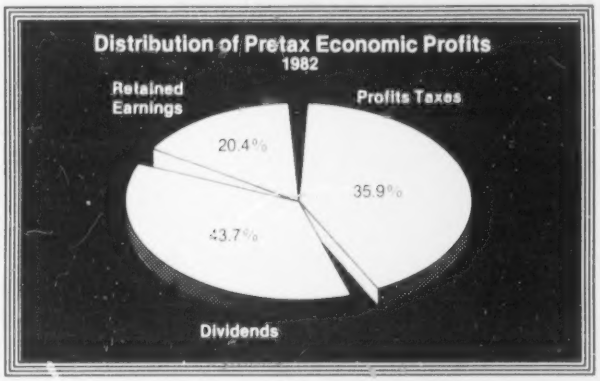


Foreign Profits

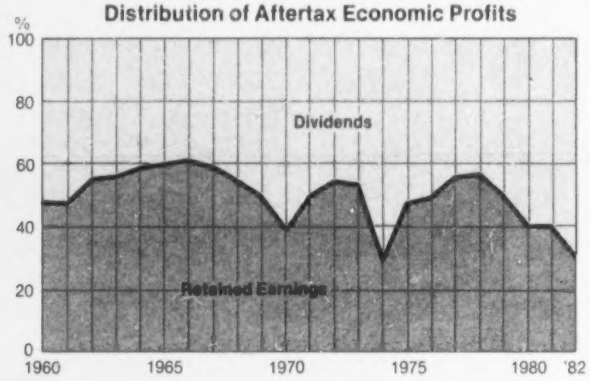


* Earnings abroad of U.S. capital net of U.S. earnings of foreign capital.

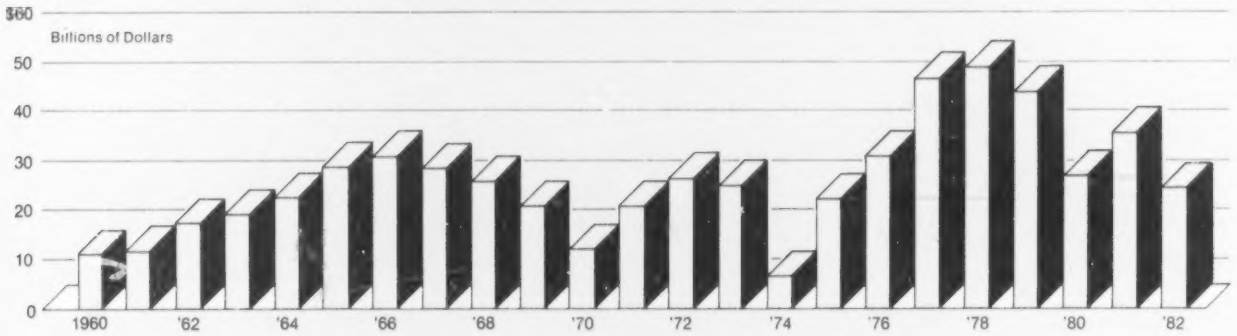
Distribution of Pretax Economic Profits 1982



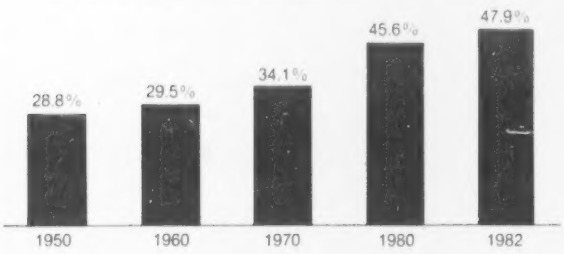
Distribution of Aftertax Economic Profits



Economic Profits Retained after Taxes and Dividends



Short-term Debt of Nonfinancial Corporations as % of Total Credit Market Debt Outstanding



income and product accounts, had pretax profits of $15.7 billion last year, up from $14.5 billion in 1981; the Fed pays over virtually all of this to the Treasury.

The share of after-tax economic profits paid out as dividends rose sharply last year to 68%, and the retained earnings' share was at an 8 year low. In absolute terms, retained economic profits slid from $53 billion in 1978 to $25 billion last year. Net profits from the rest of the world declined last year by almost $5 billion, to $18 billion. This is a net figure, reflecting U.S. owners' earnings from operations abroad less earnings of foreigners from corporate operations here.

Eva Culen

Sources: Bureau of Economic Analysis; Federal Reserve Board; The Conference Board.

ECONOMIC ROAD MAPS

Eva Culen, Editor — Chuck N. Tow, Chief Chartist

Prepared in The Business Conditions Analysis Department—Lora S. Collins, Director
Prices for Quantities of this chart will be supplied on request to Information Service.

Published by
THE CONFERENCE BOARD, INC.
845 Third Avenue, New York, N.Y. 10022 Avenue Louise, 207 Bte 5 B-1050 Brussels, Belgium
THE CONFERENCE BOARD OF CANADA
25 McArthur Road, Ottawa, Ontario K1L-6R3, Canada